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C O N F I D E N T I A L AMMAN 007125

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TREASURY FOR MILLS/PIPATANAGUL

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TAGS: [ETTC](#) [ETRD](#) [EPET](#) [EFIN](#) [IZ](#) [JO](#)

SUBJECT: JORDAN-IRAQ TRADE AND OIL PROTOCOLS NEARLY SET FOR 2003

REF: A. AMMAN 6649

[B](#). AMMAN 185

Classified By: Charge D'Affaires Gregory Berry, reasons 1.5 (b,d)

Summary

[1](#). (c) Following preliminary negotiations in Baghdad, terms for Jordan's annual oil and trade protocols with Iraq have been nearly agreed to, according to senior GOJ officials. The terms for the oil protocol will be virtually identical to last year's agreement, with minor adjustments to quantities to reflect changing demand in Jordan. The value of the trade protocol will likely be set at \$310 million. GOJ officials dismiss as totally baseless media reports that Jordan is planning to re-export refined petroleum products to Iraq. End summary.

Oil Deal Remains the Same

[2](#). (c) According to senior officials in Jordan's Trade and Energy Ministries who participated in recent negotiations in Baghdad (ref A), the terms for the 2003 trade and oil protocols between Jordan and Iraq are nearly agreed. On the oil side, Energy Minister Bataineh told DCM that the structure would be identical to last year's agreement (ref B), including the reference price. Bataineh noted that some adjustments would be made to specific quantities of various petroleum products to reflect changes in Jordanian demand. Jordan will be receiving slightly more crude (Bataineh said approximately 4.1 million tons versus 4 million last year) due to higher overall demand, but slightly less refined products, specifically fuel oil, to reflect Jordan's expected reduction in demand for fuel oil after June 2003, when the gas-fired turbines at the Aqaba power station are expected to begin operation, replacing existing oil-fired turbines (see septel for Bataineh's discussion of the Egypt-Aqaba gas pipeline).

[3](#). (c) Bataineh also noted that the technical report for the specifications of a proposed crude pipeline from the Iraqi border to the Zarqa refinery (all on Jordanian territory, he assured us) had been completed, and he expected a financial offer to be issued by the GOJ within ten days. Bataineh said there are still three international companies expressing interest in the pipeline project. Bataineh categorically denied reports in the BBC that Jordan and Iraq had agreed to re-export of refined petroleum products from Jordan to Iraq under a "technical cooperation" agreement. He attributed the report to mis-translation of remarks he gave at a somewhat harried press conference in Baghdad.

Trade Deal to Reach \$310 Million

[4](#). (c) On the trade side of the protocol, Trade Ministry Secretary General Farouk Hadidi told ECON/C that he and Trade

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Minister Salah al Bashir agreed with their Iraqi counterparts that goods worth \$310 million would be exported from Jordan to pay for the non-grant portion of the oil. The increase over the \$260 million agreed to last year is due, he said, to the higher market prices for Iraqi oil. Hadidi said each prospective export contract is assessed on a one-by-one basis to ensure that there is a minimum of 40% Jordanian content to exported goods. Both Hadidi and Bataineh said the negotiations were low-key and relatively smooth, though Bataineh noted to DCM that he had witnessed some animated discussions between Bashir and his Iraqi counterparts during the course of the talks.

Comment

[5](#). (c) The protocol talks this year were, like last year, fairly subdued. The terms agreed in these discussions will likely be formally approved by the cabinet by the end of the year. Although the Zarqa pipeline has a certain logic in the narrow sense that it would save on transportation costs, the GOJ is fully aware of the legal and political implications of the proposed project, which has been on the table for some time with little concrete progress to show. The Jordanians set out to make the negotiations as routine as possible, reflecting both the sensitivity of the political situation in

the region and Jordan's obvious short-term interest in continuing to receive cut-rate Iraqi oil for as long as Iraq is willing to provide it. Meanwhile, Iraq continues to try to extract maximum political capital from the agreements. But as the less extensive press coverage in Jordan of this year's agreements suggests, Iraq's political gains from this arrangement are increasingly less obvious.

BERRY